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OCI No. 2357/63

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
26 September 1963

MEMORANDUM

SUBJECT: CIA Reporting on the Soviet Grain Situation

1. CIA has been aware for several years of the stagnation of Soviet agriculture and has reported in detail on crop levels and their impact both on the consumer and on Soviet national policy. Because the USSR apparently began in 1958 to inflate its annual claims for grain production, it became necessary from that year on for CIA to make independent estimates, based on weather conditions, acreage, and, when possible, direct observation of crop conditions by Western observers. These estimates, prepared by the Office of Research and Reports (ORR), are as follows:

	Grain (million tons)					
	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
Soviet claim	141.2	125.9	134.4	137.3	147.5	n.a.
CIA estimate	125	100	100	115	115	105-115*
						*tentative

2. These figures, consistently far below Soviet claims, have provided the basis for a conclusion, accepted by the intelligence community, that the failure of food production to keep pace with population growth, when coupled with the demands of modern weapons technology, was facing the Soviet leadership with serious problems of resource allocation.

3. Crop estimates derived by these indirect methods are not exact, however, and this is equally the case with consumption estimates. CIA has therefore been unable to produce even speculative figures on the Soviet grain stockpile, on which no direct information is available. (An error of 1-2 percent in

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either production or consumption estimates over the last five years would have a cumulative effect of 5-10 million tons in estimates of reserve levels). As a result, while CIA was able to surmise that reserve levels had been seriously drawn down by four years of poor to mediocre harvests, to state that "extraordinary measures" would be required to prevent consumer dissatisfaction, to identify some of these measures in the chemical industry, and to predict that the 1963 harvest would also be mediocre at best, it was not able to foresee specifically that the USSR would suddenly find it necessary to make massive purchases in the Western market.

4. Estimative reporting on the Soviet economy over the last six months has been based specifically on the conclusion that agriculture has stagnated since 1958. While of necessity dealing with economic problems in fairly general terms, it spelled out the dilemmas with which these problems presented to Khrushchev and discussed their implications for Soviet domestic and foreign policy. An account of Office of National Estimates reporting is attached as Appendix A.

5. Current reporting* has discussed more specifically--within the same analytic context--crop prospects, the consumer, and the various efforts made by the Soviet Government to deal with its agricultural problems. CIA has reported that the food supply (though judged to be generally adequate in terms of calories) has failed to keep pace both with population growth and with the growing aspirations of the Soviet people for a higher standard of living. It has frequently pointed out that the Soviet diet is monotonous and that its quality has not improved significantly for several years. It has shown that the Soviet regime is aware of these problems but that, until recently, its attempts to solve them have been mainly concentrated on ineffective organizational gimmickry. During the past six months

*Current intelligence in this field, while published by the Office of Current Intelligence, is primarily the responsibility of the Office of Research and Reports (ORR). Excerpts from this reporting, are attached as Appendix B.

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it has reported frequently on signs that Moscow has grown sufficiently alarmed about the situation to make plans for significant resource reallocations in favor of agriculture and to develop its chemical industry in support of agriculture. One aspect of the latter program is apparently to be imports of large amounts of chemical equipment from Western suppliers.

6. The Current Intelligence Weekly Review (CIWR) of 30 November 1962 noted that food supplies would remain tight throughout most of the bloc during the winter of 1962 and the spring of 1963. The Central Intelligence Bulletin (CIB) of 19 December reported that the USSR's net agricultural output--that available for human consumption and as a raw material for industry--had declined to about the 1958 level. Production of potatoes, an important food for both man and beast in the USSR, was the lowest since the early post-war years. In January, CIA wrote in the CIWR that "extraordinary measures" to compensate for the poor harvest in 1962 would be required to prevent rising consumer dissatisfaction in the coming months. Winter wheat and rye are important in the USSR and poor weather during the winter of 1962 led CIA to the conclusion, reported on 21 February, that "an outstanding agricultural performance in 1963 could not be expected" even if the weather improved considerably later in the spring. By June, it seemed clear, and ORR so reported that the bloc could expect at best a mediocre harvest. The CIB of 15 August reported that the Soviet grain harvest would apparently be mediocre. Finally, the CIWR of 6 September concluded that the grain harvest may be even smaller than last year's.

7. A corollary of reporting on crop conditions has been reporting stemming from Khrushchev's desire to improve the consumer's lot. Over the past year CIA has pointed to growing consumer dissatisfaction with the wide disparities between Khrushchev's glowing promises and the actual performance of the economy. Beginning in April, CIA reported what appears to be a new commitment by Khrushchev to make a major increase in investment in the chemical industry, particularly in support of agriculture. On 12 April CIA noted that several Soviet agencies had met on the problems of improving public services and increasing the quality and variety of consumer goods, and

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related this to concern over stagnating agriculture and the need to provide greater incentives to the workers. There has also been a considerable volume of current reporting on the numerous overtures made by Moscow for the purchase of chemical equipment from the West. ORR has also reported on possible new goals for agricultural chemicals and evaluated their effect on the economy. Excerpts from this reporting are attached as Appendix C.

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APPENDIX A

26 September 1963

ONE Coverage of Soviet Economic Problems, 1963

1. The Office of National Estimates was sufficiently impressed with Soviet economic problems at the beginning of the year to produce a National Estimate concerning the Soviet economy, the first of its kind. Indeed, its interest in this area prompted it to concentrate specifically on problems as such, rather than seek to produce a comprehensive study of the economy as a whole; accordingly, this estimate was titled, "Soviet Economic Problems" (NIE: 11-5-63, concurred in by USIB on 20 March 1963).

2. In the conclusions to this paper, it was noted that "competing demands generated by a broad array of objectives" had generated "increasingly severe pressures on Soviet resources." Military and space spending had "grown at a considerably faster rate than the economy as a whole" and the "resulting impact has been felt both in industry, where growth rates have declined, and in agriculture, where output has failed to rise above the 1958 level." It foresaw "accumulating difficulties" in the USSR's efforts "to raise living standards, and perhaps a further slowdown in the tempo of general economic advance." The drafters were not at the time sanguine about prospects for major changes in the pattern of resource allocation, but noted that this problem "will probably be a central issue in the political contention which we anticipate after Khrushchev's departure."

3. In a staff initiated memorandum of 24 June (Staff Memorandum No. 37-63, "Khrushchev's Comeback"), ONE dealt at some length with a number of problems which had been agitating the Soviet leadership during the winter and spring months, among them economic problems of crucial importance. It adduced that by April and May there had been a return to more conventional Khrushchev-oriented policies, specifically those aimed at agriculture, the chemical industry, and the consumer. It was ONE's opinion that a number of leaders had sought to impose on Khrushchev a set of more conservative economic policies, stressing the primacy of heavy industry and defense needs, but that, ultimately, such efforts had failed.

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4. Next, in a paper which became a CIA Memorandum ("Soviet Policies and Problems on the Eve of the Moscow Negotiations," 3 July 1963), ONE reflected in part the analysis discussed above and, in addition, devoted three fairly lengthy paragraphs to economic problems per se. It noted that these problems had occupied a "central position in the disputes agitating the Soviet leaders during the winter and early spring," that "the domestic economic difficulties faced by the Soviets became evident in the slowdown in rate of growth which appeared by 1960 in all sectors of the civilian economy," and attributed this phenomenon to "past reductions in the workweek, stagnant agricultural production, and, most important, the impact of growing military expenditures." ONE examined the failure of the Soviet leaders to anticipate a period of increased pressures on available resources and cited some of the more or less ineffectual steps taken by the leaders to remedy the situation. Finally, ONE thought that, as a consequence of all this, the Soviets were likely to undertake a "review of all priorities." Again, it was not optimistic that such a review would lead to a reduction in military and space spending, but noted that "Khrushchev has apparently already decided to allocate greater resources to agriculture and to those branches of the chemical industry which support agriculture and produce consumer goods."

5. In another CIA Memorandum ("The New Phase of Soviet Policy," 9 August 1963), we sought to tie together a diverse set of problems which led to the signing of the limited test ban treaty and to what appeared to be a major turn in Soviet foreign policies. We assigned a principle role in this causal relationship to internal factors, most notably economic problems: "Present evidence suggests that an important reason for Khrushchev's acceptance of a limited test ban is the desire to ease the military burden on the Soviet economy so that more resources can be devoted to urgent civilian programs." Khrushchev, we concluded, "wishes to be able to point to an improved international atmosphere in order to forestall objections that his shift of resources endangers Soviet security."

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APPENDIX B

26 September 1963

Excerpts from Current Intelligence Reporting

1. Crop prospects reports, November 1962-September 1963

a. The Current Intelligence Weekly Review (CIWR), 30 Nov 62: "Food supplies will remain tight throughout most of the Sino-Soviet bloc during the winter of 1962 and spring of 1963. In the USSR, agricultural output in 1962 made almost no gain for the fourth straight year, and grain output is no larger than the mediocre 1961 crop; food shortages will probably develop in some parts of the country. Grain production in Communist China will be only slightly better than the poor 1961 harvest, and the Chinese consumer is in for another hard winter.

Since 1958 the gap between Soviet claims and US estimates has widened appreciably, perhaps because of some form of statistical manipulation or falsification by the Soviets. A directive on determining the grain harvest was issued by the Soviet Central Statistical Administration early in 1958, but its contents have never been made public."

b. The Central Intelligence Bulletin (CIB), 19 Dec 63: "Recent Soviet statistics suggest that this year's net agricultural output--that available for food and as raw material for industry--declined to about the level of 1958. Production of potatoes, a mainstay in the Soviet diet, was the lowest since at least 1950.

"While caloric intake will not be deficient, there will be shortages that will increase popular disillusionment with Khrushchev's promises for a continuously improving outlook for the consumer."

c. CIWR, 18 Jan 63: "Extraordinary measures to compensate for last year's poor harvest will be required to prevent rising dissatisfaction among Soviet consumers in the months ahead. Civil unrest, reported to have broken out in some localities last year, may occur on a larger scale."

d. CIWR, 21 Feb 63: "Poor weather this winter--with its potential consequences for the economy--is causing concern throughout the Sino-Soviet bloc. It is too early to assess the likely effects on farm output for the entire year, but it seems clear that an outstanding performance is not likely, even if favorable weather ensues."

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e. Current Support Brief, 17 Jun 63: "Current prospects are that the harvest for 1963 in the Sino-Soviet Bloc probably will not be any better than the mediocre harvest of last year, although weather conditions during the remainder of the crop season will be most significant in determining the final outcome."

Fall-sown grains in the USSR as well as in some of the European Satellites were adversely affected by a dry fall and a severe winter. As a result, there have been higher than normal rates of winterkill of fall-sown crops in some areas. Consequently, prospects for grain crops sown in the fall of 1962 in the USSR are judged to be only fair and range from fair to poor in the European Satellites."

f. CIB, 15 Aug 63: "The Soviet grain crop apparently will be mediocre this year for the fourth year in a row."

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Moscow announced that the 1962 crop was the largest in history, but actual production probably was well below the amount claimed."

g. Economic Intelligence Report, Sept 63: "In November 1962, Party-State Control Committees were established at all administrative levels of the Soviet economy to 're-establish Leninist principles of organizational control.' These committees, which collectively resemble the organization of the old Stalinist State Control Ministry, have a charter to pry into every aspect of economic activity and the power to punish those guilty of 'bureaucratic administration,' fraud, bribery, and violation of party-government regulations. Although these committees are not confined to agricultural organizations, the need for their establishment may have arisen out of the agricultural situation. The stagnation of Soviet agriculture during the past 4 years has limited the incentives of both agricultural and industrial workers, and the regime may have been forced to resurrect this elaborate control mechanism as an alternative means of improving productivity."

h. Special Report, 6 Sept 63: "Current prospects are that the 1963 harvest in the Communist world will be little, if any, better than the mediocre one of last year. In the USSR this year's prospective disappointing grain crop--the fifth in a row--may be even smaller than

last year's. In Eastern Europe the harvest of small grains is unlikely to be larger than in 1962, but prospects vary considerably among the various countries."

i. Current Intelligence Digest, 18 Sept 63: "The Soviet regime may be preparing the population for an increase in the price of bread and other grain products."

The US Embassy has reliable information that meetings have been held recently in plants and apartment houses to hear a note from the party central committee describing difficulties with the harvest. The note is said to indicate that because of poor harvest prospects, grain collections are likely to reach only 75 percent of the plan. It also said that the regime was making efforts to buy extra grain abroad.

Soviet citizens are apparently interpreting the note as a move to soften up consumers for price rises on bread and bread products. About half of the diet is made up of grain products which have long been available at low prices."

j. CIB, 17 Sept 63: "The Soviet Union may be preparing to admit publicly to one of its poorest harvests in recent years. On 12 September a TASS commentator said that the state procurement of grain--about one third of total production and a fair indicator of production trends --would be about equal to that for 1959 and 1960. This would mean nearly an 18-percent decrease over last year in procurements although a 21-percent increase had been planned."

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APPENDIX C

26 September 1963

Excerpts from Current Intelligence Reporting

1. Khrushchev, the Consumer and Agricultural Priority, March-September 1963.

a. Special Report, 22 March 63: "While the consumer has always been the stepchild of the Soviet economy, his fortunes have been improving since World War II. Khrushchev has boasted of this improvement and has made sweeping promises for the future. Although resources allocated to consumer interests have not been significantly increased, more consumer durables have been produced each year, the food situation has improved, and the official promise to end the critical housing shortage has seemed attainable. At the same time, rising incomes have enabled workers and peasants to take advantage of the increased opportunity to improve their standard of living.

"In 1961 and 1962, however, the rate of improvement in consumption levels slowed down, and in 1962 the consumer experienced several shocks unprecedented in the Khrushchev era and unlikely to increase his confidence in promises for the future. A 30-percent rise in retail prices for meat and butter, the "temporary" suspension of income-tax cuts, and the news that, for the third year running, the housing plan would be underfulfilled by a large margin all came in quick succession. The year-end reports on plan fulfillment, while better than in 1961, still showed a particularly spotty performance in the consumer sector.

"Khrushchev's reason for adding to the woes of the already discouraged consumer apparently lies in the inflationary trend over the past two to three years. Consumer industries and agriculture have not been able to keep up with the demand resulting from increased disposable incomes."

b. Current Intelligence Weekly Review, 12 April 63: "The Supreme Soviets of several of the USSR's republics met early this month to discuss means of improving public services and increasing the quality and variety of consumer goods.

"These meetings, as well as other signs of regime concern for the consumer, probably stem from a realization that agricultural failures and the near stagnation in the production of many consumer goods are increasingly serious problems affecting not only worker incentive but also the image of abundance the Communists are striving to create in the underdeveloped countries."

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However, such improvements as are achieved through the present efforts will--like others in the past--probably be inadequate to meet planning goals or the aspirations of the Soviet public. There is no indication that national resources are to be shifted away from defense and heavy industry.

The equipment needs of both the chemical industry and agriculture continue to receive considerable press attention. On 15 March the chairman of the USSR's agricultural equipment supply organization emphasized the importance of meeting the 1963 plan for a 22-percent increase in output of agricultural equipment.

On his 'vacation' trip last month Khrushchev visited several plants specializing in agricultural chemicals and synthetic fibers. Near Tula he visited a urea plant, one of four being supplied by the Dutch, and said that fertilizer would receive a 'top priority' from the state. He ordered that four more urea plants be purchased from the Dutch."

c. CIWR, 17 May 63: "Investment in Soviet agriculture in 1962 registered the largest annual increase since 1955. This was probably the greatest investment gain allotted any major component of the economy.

While there is no real basis for determining that this is a firm trend, the relative increase in priority for agriculture in 1962 might be a forecast of the course of agricultural investment in 1963.

Khrushchev, on the other hand, has been stressing the importance of resource-cheap expedients and has steered clear of new commitments. Recent decrees on certain aspects of farming--e.g., increasing potato output--have stressed the bootstrap approach for the current season.

In any event, the needs of agriculture are clear. Farm production has been virtually stagnant since 1958, but the population has increased by about 14 million. The plowing up of millions of acres of fallow and grass lands, a program introduced last year, has greatly increased needs for equipment and fertilizer."

d. Current Intelligence Memorandum, 17 July 63: "Khrushchev, in a serious attempt to overcome the stagnation of Soviet agriculture, is embarking on a course which, if pursued, will boost sharply agriculture's claim on economic resources. This apparently will be at the expense of priority industrial objectives, possibly including those of defense support. Over the past year there have been indications of a significant increase in agricultural investment including a stepped-up program for production of agricultural machinery."

e. Special Article, 26 July 63: "Khrushchev appears to be advocating a program which, if implemented, could profoundly alter Soviet economic priorities. In sum, he would sharply increase investment in the chemical industry, particularly for chemical fertilizers, in the hope this would solve his agricultural problem. Since the costs of such a program could probably not be fully met by altering priorities within heavy industry or cutting consumer-oriented programs, the government might resort to significant constraints on military spending. The potential results for agriculture--limited by institutional restraints as well as climatic conditions and the type of soil involved--would be far less than Khrushchev seems to expect and too small to justify a program of the scope he apparently plans."

f. Economic Intelligence Memorandum, Aug 63: "In a series of statements to Western visitors, Khrushchev has expressed in strong and clear language his proposal to stop the growth of Soviet defense spending and to increase, by large amounts, spending for agriculture, for chemicals in general, and for fertilizer in particular. The shift in allocation of resources advocated by Khrushchev is primarily responsive to the continuing stagnation in agriculture that began in 1959.

Since March 1963, it has become increasingly evident that the Soviet leadership is reviewing plans and priorities for 1964 and 1965. There have been many indications that the leadership, or at least Khrushchev, has been considering increased emphasis on consumer goods and investment. Published sources have been ambiguous and uninformative on both the magnitudes of new resource commitments to these uses and the relative priorities and trends planned for investment and defense. Most recently, Khrushchev in a conversation with Henri Spaak, the NATO emissary, disclosed some goals purportedly planned for the next several years--specifically, goals for industrial investment, fertilizer and other chemical outputs, and, in vague terms, defense.

In the light of the performance of agriculture in the USSR over the last 4 years, a shift of resources in the general direction indicated would be reasonable. The magnitude of the shift implied by Khrushchev, however, is large and would have a considerable short-run impact on the economy. These statements clearly perform a useful propaganda service on behalf of Khrushchev's current line of peaceful coexistence and thus are open to legitimate suspicion."

g. CIWR, 16 Aug 63: "Khrushchev continues to tell Western officials privately that he is about to undertake massive new investments to solve the USSR's pressing agricultural problems and to promote consumer welfare. In his most recent conversation along these lines--with US Secretary of

Agriculture Freeman on 30 July--Khrushchev linked his new course directly to a reduction in military spending. 'We are fed up with rockets, we have enough rockets,' he said. 'We are going to divert this money to agriculture.'

A program of the magnitude and diversity now being promoted by Khrushchev does not yet appear to be actually under way. Agricultural and chemical investment are growing fairly rapidly and imports of chemical equipment are increasing, but neither of these on a scale commensurate with the stated program. However, the seriousness of Khrushchev's intentions may be indicated in the widespread Soviet press campaign which seems to be preparing the way for the announcement of a major new chemical program this fall. Likewise, in his conversations with Western officials, Khrushchev has seemed keenly aware of the detailed cost factors--which suggests that planning work is well under way.

In pushing the new program Khrushchev will need foreign technological assistance and equipment. He has already lauded the US, German, and British fertilizer programs and suggested that the Soviet Union could learn from these. While noting the high prices of American equipment, he nonetheless expressed a willingness to buy 'whole plants' from the US, adding, however, that if the US would not sell, Great Britain and West Germany would. He noted that the USSR has already purchased fertilizer plants from Germany and Holland and has placed orders in Czechoslovakia, Poland, and East Germany for fertilizer equipment."

h. CIWR, 20 Sept 63: "Recent Soviet purchases of some \$500 million worth of wheat probably stem in large part from a drastic reduction in stockpiles caused by four successive disappointing harvests and a need to forestall a critical grain shortage in the Soviet bloc. There are indications that this year's crop will be one of the poorest in recent years. Moscow radio implied on 12 September that state procurement of grain--approximately 40 percent of the crop--will be well below last year.

To ensure better crops in the future and reduce the necessity for such stopgap purchases, the USSR has begun negotiations to purchase chemical fertilizer plants from the West. On 13 August, [REDACTED] submitted on Soviet request proposals for what appears to be one of the largest lists of chemical facilities ever offered to the USSR. It includes five urea plants with a capacity equivalent to about 2 million tons of fertilizer by Soviet standards--60 percent of capacity planned for 1965--and ten complex fertilizer plants with a combined capacity of 4 million tons. The increase in capacity planned for 1963 is 7 million tons."

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i. CIB, 24 Sept 63: "The Communist youth organization, Komsomol, has been called upon to assist in the completion of more than 50 mineral fertilizer plants before the end of 1963, according to a TASS announcement. TASS compared the call-up with the mammoth 'new lands' campaign of 1954-58 during which hundreds of thousands of youths were pressed into service. While the 'new lands' program could make good use of inexperienced labor, the effectiveness of such labor in the construction of chemical plants is questionable."